
**Overview of
Changes to
the Lender's
Handbook**

Changes have been made to VA Pamphlet 26-7, VA Lender's Handbook, related to automated underwriting, the Credit Alert Interactive Voice Response System (CAIVRS), and the credit standards. The reasons for these changes are as follows:

- **Loan Prospector**. VA has approved the use of Freddie Mac's automated underwriting system, "Loan Prospector," in underwriting VA loans.
- **CAIVRS**. While lenders have previously been informed of the requirement to perform a CAIVRS search on prospective borrowers, this requirement and instructions for using CAIVRS have never been incorporated into the Lender's Handbook.
- **Credit Standards**. VA recently published a revision to the credit standards regulation. The various changes were made in an effort to accomplish one or more of the following:
 - ◆ Become consistent with industry practices
 - ◆ Update, clarify or simplify requirements
 - ◆ Address issues and questions not previously addressed in the regulation.

This change also restates and reemphasizes the requirement that lenders with authority to close loans under the automatic procedure **must** make maximum use of that authority.

Effective Date These changes are effective immediately.

**Loan
Prospector**

VA has approved lender use of Freddie Mac's automated underwriting system, "Loan Prospector," in underwriting VA loans. Within Freddie Mac's Loan Prospector User Guide, the module approved for use in underwriting VA loans is entitled Module LPS6000 VA Loan Processing.

Use of Loan Prospector provides certain reductions in VA's documentation requirements. A paragraph has been added to "General Information" to discuss the use of Loan Prospector. Appropriate changes to loan documentation and lender certification requirements have been made in Chapters 4 and 5.

Continued on next page

CAIVRS

Lenders must perform a CAIVRS inquiry on **all** applicants and co-obligors (veteran or nonveteran) for **all** VA loans **except** Interest Rate Reduction Refinancing Loans (IRRRLs). Procedures for using CAIVRS have been added to the Credit Standards section of the Handbook.

**Credit
Standards**

The following changes to the regulation are now reflected in the Lender's Handbook:

INCOME

- If an employer declines to indicate "probability of continued employment" on a verification of employment, the lender is not required to make any further attempt to get such a statement.
- The requirement for an accountant-prepared profit and loss statement for self-employed veterans is deleted since VA already requires copies of tax returns for these veterans.
- The requirements pertaining to members of the active military who are within 12 months of release or discharge now apply to members of the reserves.
- 75 percent of projected rental income is usable as income. The other 25 percent is allocated to cover expenses and vacancies.
- VA has established guidelines for determining when "income" from an automobile allowance or other expense account type income can be used for loan qualification purposes.
- Certain forms of temporary income, for example, income from public assistance programs, may be used for qualification purposes if it will probably continue for at least 3 years.
- Income from such sources as workmen's compensation and providing foster care can be used as qualifying income.

Continued on next page

**Credit
Standards
(continued)**

DEBTS AND OBLIGATIONS

- Lenders must establish the purpose of any allotment shown on a pay stub or LES (leave and earnings statement) in order to assure that all debts are properly considered.
- The requirement to include a minimum payment on any revolving account with a zero balance is deleted.
- Debts assigned by divorce decree to a former spouse need not be charged to the veteran, even when they appear on the veteran's credit report.

CREDIT

- The allowable age of credit documents is extended to 120 days (180 days for new construction)
- A 3-file merged credit report can be used as an alternative to the Residential Mortgage Credit Report.
- Satisfactory credit can be considered reestablished after 12 months from the date of the most recent derogatory credit item.
- Collection accounts do not necessarily have to be paid off, but court-ordered judgments do, unless they are subject to a repayment plan with a history of timely payments.
- VA has established guidelines for evaluating credit on applicants who are currently in a Consumer Credit Counseling program.
- 2 years from the date of discharge in a Chapter 7 Bankruptcy is sufficient time to establish a veteran as a satisfactory credit risk.
- For Chapter 13 Bankruptcy, satisfactory payment for 12 months is required to establish the veteran as a satisfactory credit risk.

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**Credit
Standards
(continued)**

DEBT-TO INCOME RATIO AND RESIDUAL INCOME

- Residual income figures are increased by 4 percent. The break point between the tables for lower and higher loan amounts is raised from \$70,000 to \$80,000.
- Use of residual income guidelines is based on consideration of all members of the veteran's household, without regard to the nature of the relationship.
- For the purpose of computing the debt-to-income ratio, tax free income may be "grossed up" to make it comparable to taxable income when determining the ratio and establishing its acceptability.

COMPENSATING FACTORS

- The list of compensating factors is expanded to include the tax credit for child care and the tax benefits of home ownership.
-

**The New
Format**

The revision to chapter 5, section II, is formatted in a new, more user-friendly style. VA is in the process of rewriting the entire Lender's Handbook in this style.

VA believes that the two contrasting styles, used together on a temporary basis, will not interfere with program participants' understanding of the information provided.

**Clarification
of IRRRL
Procedural
Changes**

Change 33 of this handbook stated that lenders could no longer process an IRRRL on the automatic basis if the existing loan was 30 days or more past due on the date of application (or any time thereafter, up to the date of closing).

- For these purposes, 30 days past due means 30 days **after** the due date of the mortgage payment, which is typically the first of each month.

Example 1: Veteran applies for an IRRRL on November 10, 1997 but has not made his October 1997 payment yet. Since the October 1997 payment was due October 1, 1997, the veteran is over 30 days past due. The IRRRL cannot be processed on the automatic basis unless the veteran makes the October 1997 payment.

Continued on next page

**Clarification
of IRRRL
Procedural
Changes
(continued)**

Example 2: Veteran applies for an IRRRL November 17, 1997 and has not made his November 1, 1997 payment. Due to processing delays, the loan will not close until December 3, 1997. Since this is more than 30 days past the date when the November payment was due (November 1, 1997) the loan cannot close on the automatic basis unless the veteran makes the November 1, 1997 payment.

Example 3: Veteran applies for IRRRL December 16, 1997 and has not made the December 1, 1997 payment. The loan is scheduled to close December 29, 1997. The loan can be closed on the automatic basis.

**Removal and
Insertion of
Pages**

VA Pamphlet 26-7, VA Lender's Handbook, is changed as follows:

Remove	Insert
Existing page G-i	Page G-i attached.
	Page G-13 attached
Existing pages 4-2a through 4-6	Pages 4-2a through 4-6 attached.
Existing pages 5-i	Pages 5-i through 5-iii attached.
Existing pages 5-15 through 5-45	Pages 5-15 through 5-72 attached
Existing pages 6-1 and 6-2	Pages 6-1 and 6-2 attached.

By Direction of the Under Secretary for Benefits

Keith Pedigo, Director
Loan Guaranty Service

Distribution Per VA Forms 7225 and 7225a

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[1.7 Automated Underwriting - Loan Prospector]

a. VA has approved use of an automated underwriting system, "**Loan Prospector**," which Freddie Mac has developed for use in conjunction with VA guaranteed loans. Its use is limited to VA automatic lenders closing loans eligible for automatic processing. Loans evaluated by **Loan Prospector** are given a risk classification of **Accept** or **Refer**, each of which provides the lender a recommended level of underwriting and documentation. Chapters 4 and 5 provide detailed instructions concerning the documentation and underwriting requirements specific to **Loan Prospector** loans.

b. It must be clearly understood that **Loan Prospector** does not approve or disapprove any loan application. **Loan Prospector** evaluates the risk associated with each application, but it remains the lender's decision to approve the loan or not. In addition to the instructions contained herein, lenders who use **Loan Prospector** will have a **Loan Prospector** Second Generation User Guide dated August 1997 with specific information concerning the use of **Loan Prospector** in connection with VA loans. Except for underwriting and documentation differences specified in the Lenders Handbook for applications evaluated by **Loan Prospector**, lenders will continue to be responsible for ensuring that all VA requirements are met for all loans.

c. Although VA has approved the use of **Loan Prospector** in connection with VA loans, Freddie Mac is the vendor and the terms and conditions of its use by lenders are to be negotiated directly with Freddie Mac. Questions regarding access to the **Loan Prospector** service and its availability for use on VA guaranteed loans should be directed to Freddie Mac by calling 1-800-FREDDIE.

1.8 Use of Automatic Authority

Due to reduced staffing in many VA offices, it has become extremely difficult to provide timely service in connection with processing prior approval loan applications. Consequently, it is essential that lenders with automatic authority use that authority in every possible instance. Except for cases specifically precluded from automatic processing, such as joint loans, the only cases submitted to VA for prior approval should be those in which your underwriter firmly believes approval can be justified, in spite of the fact that the specific facts of the case appear to preclude approval. In such instances, the underwriter will be expected to include a detailed explanation of why the loan should be approved by VA along with a thorough justification for not approving the loan on the automatic basis. It will not be sufficient to justify submitting the loan to VA solely to comply with the veteran's or the real estate agent's request to do so.]

(11) VA Form 26-8497, Request for Verification of Employment (or equivalent), and other verifications of income (e.g., pay stubs, tax returns, see [par. 5.12]);

(12) Purchase/earnest money contract;

(13) VA Form 26-1843, Certificate of Reasonable Value; or

(14) VA Form 26-1843a, Master Certificate of Reasonable Value, if applicable, with any applicable endorsements and/or change orders (VA Forms 26-6363 and/or 26-1844 or VA computer generated form). (Highlight to show lot and block identification, house type valuation, and optional equipment applicable to veteran's purchase.); or

(15) LAPP documentation (see [par. 21.19]) and

(16) The original Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report (URAR), including all addendums, photographs and any document(s) revising or correcting the fee appraiser's original (URAR). (NOTE: The URAR etc., is **NOT** required when VA Form 26-1843a, MCRV, is submitted); and

(17) Any other necessary documents.

c. Closing Documents. After an application has been approved and the loan closed, the following documentation, in the prescribed order, must be submitted to report loan closing and request evidence of guaranty:

- (1) Lender's cover or transmittal letter (if used);
- (2) VA Form 26-0285, VA Transmittal List (fig. 4.01);
- (3) VA Form 26-0286, VA Loan Summary Sheet (figs. 4.02 and 4.03);
- (4) VA Form 26-8998, Acknowledgment of Receipt of Funding Fee from Mortgagee, or if applicable, VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage, and VA Form 26-8999, Acknowledgment of Receipt of Funding Fee Shortage to Mortgagee, or evidence borrower is exempt (see par. 6.07 regarding exemptions);
- (5) VA Form 26-8923, Interest Rate Reduction Refinance Worksheet (if applicable);
- (6) VA Form 26-1820, Report and Certification of Loan Disbursement;
- (7) Lender's quality certification per 38 CFR part 36 and 38 U.S.C. chapter 37 [(see step 7 of the Lender Procedures in par. 5.11)];
- (8) HUD-1, Settlement Statement;
- (9) Evidence of compliance with CRV/MCRV or LAPP/NOV requirements (e.g., final compliance inspection, termite certification, warranty, etc.);
- (10) Any other necessary documents.

4.04 AUTOMATIC PROCEDURE

a. Requirements. Lenders who are supervised (par. 1.03) or have been approved as non-supervised lenders to process loans on the automatic basis (par. 1.05) may develop all exhibits, make a credit determination, approve and close a VA loan without first submitting it to VA for prior approval. (See pars. 1.03c and 1.05n.)

b. General Procedure. The following loan documentation must be submitted in sequence, for loans processed under the automatic procedure:

- (1) Lender's cover or transmittal letter (if used);
- (2) VA Form 26-0285, VA Transmittal List (fig. 4.01);

- (3) VA Form 26-0286, VA Loan Summary Sheet (figs. 4.02 and 4.03);
- (4) VA Form 26-8320 (or 26-8320a), Certificate of Eligibility;
- (5) VA Form 26-8998, Acknowledgment of Receipt of Funding Fee from Mortgagee, or, if applicable, VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage and VA Form 26-8999, Acknowledgment of Receipt of Funding Fee Shortage of Mortgagee, or evidence borrower is exempt (see par. 6.07 for information on exemptions);
- (6) VA Form 26-6393, Loan Analysis;
- (7) [Loan Prospector Feedback Certificate, if applicable (for Loan Prospector cases, acceptable variations on the documentation required in items 17, 18, and 19 below, are explained in paragraph 5.18)];
- [(8)] VA Form 26-1820, Report and Certification of Loan Disbursement;
- [(9)] Lender's quality certification per 38 CFR part 36 and 38 U.S.C. chapter 37 [(see step 7 of the Lender Procedures in par. 5.11)];
- [(10)] VA Form 26-8937, Verification of VA Benefit-Related Indebtedness;
- [(11)] HUD-1, Settlement Statement;
- [(12)] Evidence of compliance with CRV/MCRV or LAPP/NOV requirements;
- [(13)] If loan is submitted more than 60 days after loan closing, lender's request for waiver and certification that loan is current;
- [(14)] Interest Rate and Discount Disclosure Statement;
- [(15)] VA Form 26-0592, Counseling Checklist for Military Homebuyers, if applicant is on active duty;
- [(16)] Uniform Residential Loan Application (URLA) with revised VA Form 26-1802a, HUD/VA Addendum to Uniform Residential Loan Application;
- [(17)] All credit reports obtained in connection with the loan and any related documentation;

[(18)] VA Form 26-8497, Request for Verification of Employment (or equivalent), and other verifications of income (e.g., pay stubs, tax returns, [see par. 5.12]);

[(19)] VA Form 26-8497a, Request for Verification of Deposit, and other related documents (Alternative: Original or certified true copies of last two bank statements.);

[(20)] Purchase/earnest money contracts;

[(21)] VA Form 26-1843, Certificate of Reasonable Value; or

[(22)] VA Form 26-1843a, Master Certificate of Reasonable Value (MCRV), with applicable endorsements and/or change orders (VA Forms 26-6363 and/or 26-1844 or VA computer-generated form). Highlight to show lot and block identification, house type valuation and optional equipment applicable to veteran's purchase; or

[(23)] LAPP Notice of Value (NOV) and any special requirements or conditions applicable to the property.

[(24)] The original Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report (URAR) including all addendums, photographs and any document(s) revising or correcting the fee appraiser's original URAR. (NOTE: The URAR and attending information is **NOT** required when VA Form 26-1843a, MCRV, is submitted.

[(25)] Any remaining pertinent documents;

c. (IRRRLs) Interest Rate Reduction Refinancing Loans. These loans may be closed on the automatic basis by any VA lender, provided the loan is not in default. A loan which is past due 30 days or more may not be processed on the automatic basis. (For these purposes, 30 days past due means 30 days after the due date of the mortgage payment, which is typically the first of each month.) Such loans must be submitted to VA on the prior approval basis. The loan report for IRRRLs closed on the automatic basis require the following exhibits:

(1) Lender's cover or transmittal letter (if used);

(2) VA Form 26-0285, VA Transmittal List (fig. 4.01);

(3) VA Form 26-0286, VA Loan Summary Sheet (figs. 4.02 and 4.03);

(4) VA Form 26-8320 (or 26-8320a), Certificate of Eligibility, or a request for a duplicate certificate on VA Form 26-1880, Request For Determination Of Eligibility And Available Loan Guaranty Entitlement;

(5) VA Form 26-8998, Acknowledgment of Receipt of Funding Fee from Mortgagee, or (if applicable) VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage and VA Form 26-8999, Acknowledgment of Receipt of Funding Fee Shortage to Mortgagee, or evidence borrower is exempt (see par. 6.07 regarding exemptions);

(6) Statement signed by the veteran acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate. (The statement must show the interest rate and monthly payments for the new loan versus that for the old loan. If applicable, the veteran's statement may be combined with the lender's certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20 percent or more.);

(7) VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet;

(8) VA Form 26-1820, Report and Certification of Loan Disbursement;

(9) VA Form 26-8937, Verification of VA Benefit-Related Indebtedness;

(10) HUD-1, Settlement Statement;

(11) VA Form 26-0503, Federal Collection Policy Notice;

(12) Lender's certification that the prior loan was current (not 30 days or more past due) at the time of application and at the time of loan closing;

(13) Documentation of the cost of energy efficient improvements included in the loan. Such improvements must have been completed no more than 90 days prior to the date of the loan.

(14) Any other pertinent documents.

d. Effect of Guaranty. For loans closed on the automatic basis, the guaranty becomes effective upon compliance with the law and applicable regulations and without issuance of evidence of guaranty. However, VA may at any time, with 30 days notice, require that loans made by any lender or class of lenders be submitted for prior approval. In these instances, no guaranty liability shall exist unless evidence of guaranty is issued by

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5.11 How to Underwrite a VA-Guaranteed Loan

VA Underwriting Standards

VA loans involve a veteran's **benefit**. Therefore, lenders are encouraged to make VA loans to all qualified veterans who apply.

VA's underwriting standards are intended to provide **guidelines** for lenders' underwriters as well as VA's underwriters. Underwriting decisions must be based on sound application of the underwriting standards, and underwriters are expected to use good **judgment and flexibility** in applying the guidelines set forth in the following pages.

Basic Requirements

By law, VA may only guarantee a loan when it is possible to determine that the veteran:

- Is a satisfactory credit risk

AND

- Has present and anticipated income that bear a proper relation to the contemplated terms of repayment.

VA's underwriting standards are incorporated into VA regulations at 38 CFR 36.4337 and explained in this section. This section addresses the verifications, procedures, and analysis involved in underwriting a VA-guaranteed loan. It provides **guidance** on how to treat income, debts and obligations, credit history, etc., and how to present and analyze these items on VA's loan analysis form. It does not deal with every possible circumstance that will arise; therefore, underwriters must apply reasonable judgment and flexibility in administering this important veteran's benefit.

Lender Responsibility

Lenders are responsible for:

- Developing all credit information
- Properly obtaining all required verifications and the credit report
- Ensuring the accuracy of all information on which the loan decision is based
- Complying with the law and regulations governing VA's underwriting standards, and with VA's underwriting policies, procedures, and guidelines

AND

- Certifying as to compliance with all of the above.
-

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5.11 How to Underwrite a VA-Guaranteed Loan, Continued

Lender Procedures

Chapter 4 provides loan processing procedures and required loan documents. The procedures below address only the credit **underwriting** of the loan:

Step	Action
1	Initiate the VA and CAIVRS inquiries described in paragraph 5.16.
2	<p>Obtain all necessary verifications.</p> <ul style="list-style-type: none">• The applicant's authorization can be obtained for each verification needed, or on one blanket authorization form (attach a copy of the blanket authorization to each verification requested, including VA Form 26-8937, Verification of VA Benefit-Related Indebtedness).• The credit report and verifications can be ordered by the lender or its agent or a party designated by the lender to perform that function. HOWEVER, these documents must always be delivered by the credit reporting agency or verifying party directly to the lender or its agent, and never to another party.♦ i.e., While a lender may delegate authority for a builder, realtor, or other person to order the report for the lender, the report may not be delivered to such builder, realtor, etc. and may not pass through the hands of any such party or the applicant.
3	<p>Compare similar information received from different sources. For example:</p> <ul style="list-style-type: none">• The number of dependents provided on the URLA, tax returns, credit report, etc. should be the same.• The status of debts provided on the URLA and credit report should be the same. <p>Resolve any discrepancies.</p>
4	<p>Complete VA Form 26-6393, Loan Analysis, in conjunction with a careful review of the loan application and supporting documentation.</p> <ul style="list-style-type: none">• The form is not required for IRRRLs (except IRRRLs to refinance delinquent VA loans).
5	Indicate the loan decision in item 50 of the loan analysis after ensuring that the treatment of income, debts, and credit is in compliance with VA underwriting standards.

Continued on next page

5.11 How to Underwrite a VA-Guaranteed Loan, Continued

Lender Procedures (continued)

Step	Action
6	<p><u>Loans closed by an automatic lender:</u> The underwriter must certify review and approval of the loan by signing item 51 of the loan analysis. (See section 5.18 for Loan Prospector certification.)</p> <ul style="list-style-type: none"> For nonsupervised automatic lenders, this must be a VA-approved underwriter. <p><u>Prior approval loans:</u> The individual with authority to determine that the loan:</p> <p>(1) Meets VA credit standards; <u>AND</u></p> <p>(2) Should be submitted to VA,</p> <p>Must sign item 51 of the loan analysis.</p>
7	<p>An officer of the lender authorized to execute documents and act on behalf of the lender must complete the following certification:</p> <p>“The undersigned lender certifies that the loan application, all verifications of employment, deposit, and other income and credit verification documents have been processed in compliance with 38 CFR part 36; that all credit reports obtained in connection with the processing of this borrower’s loan application have been provided to VA; that, to the best of the undersigned lender’s knowledge and belief, the loan meets the underwriting standards recited in chapter 37 of title 38 United States Code and 38 CFR part 36; and that all information provided in support of this loan is true, complete and accurate to the best of the undersigned lender’s knowledge and belief.”</p>

Underwriting Special Types of Loans

The underwriting standards and procedures explained in this chapter apply to these special types of loans **generally**. HOWEVER, some special underwriting considerations also apply and can be found as follows:

Type of Loan	Paragraph
Joint Loans	3.05
Energy Efficient Mortgages (EEMs)	3.17
Graduated Payment Mortgages (GPMs)	5.07
Growing Equity Mortgages (GEMs)	5.08
Loans Involving Temporary Interest Rate Buydowns	5.10
Farm Residence Loans	3.03

Continued on next page

5.11 How to Underwrite a VA-Guaranteed Loan, Continued

Refinancing Loans

While the underwriting standards detailed in this chapter apply to “cash-out” refinances, IRRRLs generally do not require any underwriting.

IRRRLs made to refinance VA loans 30 days or more past due must be submitted to VA for prior approval. It must be reasonable to conclude that:

- The circumstances that caused the delinquency have been corrected;

AND

- The veteran can successfully maintain the new loan.
-

5.12 Income

Underwriter’s Objectives

Identify and verify income available to meet:

- The mortgage payment
- Other shelter expenses
- Debts and obligations
- Family living expenses

Evaluate whether verified income is:

- Stable and reliable
 - Anticipated to continue during the foreseeable future
 - Sufficient in amount
-

Importance of Verification

ONLY VERIFIED INCOME CAN BE CONSIDERED IN TOTAL EFFECTIVE INCOME

Income of a Spouse

Verify and treat the income of a spouse who will be **contractually obligated** on the loan the same as the veteran’s income.

To ensure compliance with the Equal Credit Opportunity Act (ECOA), do **not** ask questions about the income of an applicant’s spouse unless:

- The spouse will be contractually liable; **OR**
 - The applicant is relying on the spouse’s income to qualify; **OR**
-

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5.12 Income, Continued

Income of a Spouse (continued)

- The applicant is relying on alimony, child support, or separate maintenance payments from a spouse or former spouse; **OR**
 - The applicant resides in a community property state or the security is in such a state.
 - ♦ In community property states, information concerning a spouse may be requested and considered in the same manner as for the applicant, **even if** the spouse will **not** be contractually obligated on the loan.
-

ECOA Considerations

Restrict inquiries related to the applicant's **spouse** to the situations listed under the previous heading, "Income of a Spouse".

Always inform the applicant (and spouse, if applicable) that they do **not** have to divulge information on the receipt of child support, alimony, or separate maintenance. However, in order for this income to be considered in the loan analysis, it must be divulged and verified.

Income cannot be discounted because of sex, marital status, age, race, or other prohibited bases under the Equal Credit Opportunity Act (ECOA).

Treat income from all sources **equally**; i.e., the fact that all or part of an applicant's income is derived from any public assistance program is not treated as a negative factor, provided the income is stable and reliable.

Income from Non-Military Employment

Verification: General Requirement

Verify a **minimum** of **2 years** employment.

If the applicant has been employed by the present employer **less than 2 years** :

- Verify prior employment **plus** present employment covering a **total** of 2 years; **OR**
- Provide an explanation of **why** 2 years employment could **not** be verified.

Compare any different types of employment verifications obtained (e.g., verification of employment, pay stubs, tax returns) for consistency.

- Clarify any substantial differences in the data that would have a bearing on the qualification of the applicant.

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5.12 Income, Continued

Income from Non-Military Employment (continued)

Verification: Standard Documentation

Acceptable verification consists of:

- VA Form 26-8497, Request for Verification of Employment (VOE)
 - ♦ Or any format which furnishes the same information as VA Form 26-8497

PLUS

- A **pay stub** if the employer normally provides one to the applicant.

If the employer does not indicate the probability of continued employment on the VOE, the lender is **not** required to request anything additional on that subject.

The VOE and pay stub must be **no more than 120 days old** (180 days for new construction).

- For loans closed automatically, the date of the VOE and pay stub must be within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, the date of the VOE and pay stub must be within 120 days of the date the application is received by VA (180 days for new construction).

The VOE **must** be an **original**. The pay stub may be an **original or a copy** certified by the lender to be a true copy of the original.

Verification: Employment Verification Services

Lenders may use **VOEs** supplied by an employment verification service **only if** VA has **approved** the use of VOEs from that **particular** provider. VA has approved two:

1. "FULL" verifications of employment through "The Work Number for Everyone," a service of the **TALX** Corporation
 - ♦ (No pay stub is needed with the TALX verification.)
2. Verifications through **VIE**, Inc., a wholly owned subsidiary of Norwest Mortgage
 - ♦ (VIE verifications must be supplemented by a pay stub or telephone verification of the applicant's current employment. For telephone verification, document the date of verification and the name, title, and telephone number of the person with whom employment was verified.)

Continued on next page

5.12 Income, Continued

Income from Non-Military Employment (continued)

Verification: Alternative Documentation

Alternative documentation may be submitted in place of a VOE if the lender concludes that the applicant's income **is** stable, reliable, and anticipated to continue during the foreseeable future; i.e., if the applicant's income qualifies as effective income.

- 2 years employment is not required to reach this conclusion.

Alternative documentation consists of:

- Pay stubs covering at least the most recent 30-day period

PLUS

- W-2 forms for the previous 2 years

PLUS

- Telephone verification of the applicant's current employment.
 - ◆ Document the date of verification and the name, title, and telephone number of the person with whom employment was verified.

IF

The employer is **not** willing to give telephone verification of applicant's employment

OR

The pay stubs or W-2 forms are in **any** way questionable as to authenticity

THEN

Use standard documentation. Alternative documentation **cannot** be used.

Pay stubs and W-2 forms may be **originals or copies** certified by the lender to be true copies of the originals.

Verification: Additional Documentation for Persons Employed in the Building Trades or Other Seasonal or Climate-Dependent Work

In addition to the standard documentation (VOE and pay stub), obtain:

- Documentation evidencing the applicant's total earnings year to date
- Signed and dated individual income tax returns for the previous 2 years

AND

- If applicant works out of a union, evidence of the union's history with the applicant.

Continued on next page

5.12 Income, Continued

Income from Non-Military Employment (continued)

Analysis: General Guidance

Income analysis is not an exact science. It requires the lender to underwrite each loan on a case by case basis, using:

- Judgment
- Common sense

AND

- Flexibility, when warranted.

Analyze the probability of continued employment (i.e., whether income is stable and reliable) by examining:

- The applicant's past employment record
- The applicant's training, education, and qualifications for his or her position
- The type of employment
- The employer's confirmation of continued employment, if provided

Employment for 2 years' in the applicant's current position is a positive indicator of continued employment. It is **NOT** a required minimum and **NOT** always sufficient **by itself** to reach a conclusion on the probability of continued employment.

Analysis: Applicant Employed Less Than 12 Months

Generally, employment less than 12 months is **not** considered stable and reliable. However, it **may** be considered stable and reliable if the individual facts warrant such a conclusion. Carefully consider:

- The employer's evaluation of the probability of continued employment, if provided
- Whether the applicant's training and/or education equipped him or her with particular skills which relate directly to the duties of his or her current position
 - ♦ For the most part, this applies to **skilled positions**. Examples include nurse, medical technician, lawyer, paralegal, and computer systems analyst.

IF

The probability of continued employment is high based on these factors

THEN

The lender may give favorable consideration to including the income in total effective income.

Continued on next page

5.12 Income, Continued

Income from Non-Military Employment (continued)

Analysis: Applicant Employed Less Than 12 Months (continued)

An explanation of **why** income of less than 12 months duration was used **must** accompany the loan submission.

IF

The probability of continued employment is good, but not as well supported

OR

Employment will be terminated at some point in the future which can be reasonably estimated

THEN

The lender may still consider the income of an applicant who has been employed at least 6 months to partially offset debts of 10 to 24 months duration.

- Determine the amount which can be used, based on such factors as:
 - ♦ The employer's evaluation of the probability of continued employment
 - ♦ The length of employment (e.g., 10 months versus 6 months)
- Include an explanation with the loan submission.

Analysis: Recent History of Frequent Changes of Employment

Short-term employment in a present position combined with frequent changes of employment in the recent past require special consideration to determine stability of income. Analyze the **reasons** for the changes in employment.

- See paragraph 1.3 under General Information for a discussion of frequent job changes by individuals with low-to-moderate incomes.

Give favorable consideration to:

- Changes for the purpose of career advancement in the same or related field.

Favorable consideration may not be possible for:

- Changes with no apparent betterment to the applicant

AND

- Changes from one line of work to another.

If the lender includes applicant's income in effective income, an explanation **must** accompany the loan submission.

Continued on next page

5.12 Income, Continued

Income from Overtime Work, Part- Time Jobs, Second Jobs, and Bonuses

Generally, such income **cannot** be considered stable and reliable **unless** it has continued (and is verified) for **2 years**.

To include income from these sources in effective income:

- The income must be **regular** and **predictable**

AND

- There must be a reasonable likelihood that it will **continue** in the foreseeable future based on:

- ♦ Its compatibility with the hours of duty and other work conditions of the applicant's primary job

AND

- ♦ How long the applicant has been employed under such arrangement.

The lender may use this income, if it is **not** eligible for inclusion in effective income, but **is** verified for at least 12 months, to offset debts of 10 to 24 months duration. Include an explanation.

Income from Commissions

Verification

When all or a major portion of the applicant's income is derived from commissions, obtain the following documentation:

- Verification of employment or other written verification which provides
 - ♦ The actual amount of commissions paid year-to-date
 - ♦ The basis for payment (i.e., salary plus commission, straight commission, or draws against commission)
 - ♦ When commissions are paid (i.e., monthly, quarterly, semiannually, or annually)

PLUS

- Individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years (or additional periods if needed to demonstrate a satisfactory earnings record)

Analysis

Generally, income from commissions is considered stable when the applicant has obtained such income for at least **2 years**.

- Less than 2 years cannot usually be considered stable unless the applicant has had previous related employment and/or extensive specialized training.
- Less than 1 year can rarely qualify.
 - ♦ In-depth development is required for a conclusion of stable income on less than 1 year cases.

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5.12 Income, Continued

Self- Employment Income

Verification

Obtain the following documentation:

- Current **financial statements** prepared in a generally recognized format, including:
 - ♦ Profit and loss statement for the prior fiscal year plus the period year-to-date since the end of the last fiscal year
 - ♦ Current balance sheet
 - ♦ **NOTE:** The financial statements must be sufficient for a loan underwriter to determine the necessary information for loan approval. The lender may require accountant-prepared financial statements or financial statements audited by a Certified Public Accountant if needed to make such a determination due to the nature of the business or the content of the financial statements.

PLUS

- Individual **income tax returns**, signed and dated, plus all applicable schedules for the previous 2 years (or additional periods if needed to demonstrate a satisfactory earnings record)

PLUS

- If the business is a corporation or partnership
 - ♦ Copies of the signed federal business income tax returns for the previous 2 years plus all applicable schedules
 - ♦ A list of all stockholders or partners showing the interest each holds in the business
- **NOTE:** Obtain a written credit report on the business as well as the applicant as needed.

Analysis

Generally, income from self-employment is considered stable when the applicant has been in business for at least **2 years**.

- Less than 2 years cannot usually be considered stable unless the applicant has had previous related employment and/or extensive specialized training.
- Less than 1 year can rarely qualify.
 - ♦ In-depth development is required for a conclusion of stable income on less than 1 year cases.

Analyze the general economic outlook for similar businesses to determine whether the business can be expected to generate sufficient income for the applicant's future needs.

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5.12 Income, Continued

Self-Employment Income (continued)

If the business shows a steady or significant decline in earnings over the period analyzed, the reasons for such decline must be analyzed to determine whether the trend is likely to continue or be reversed.

If the business is unusual and it is difficult to determine the probability of continued operation, obtain an opinion on viability and future earnings, and an explanation of the function and financial operations of the business from a qualified party.

Depreciation claimed as a deduction on the tax returns and financial statements of the business may be included in effective income.

Active Military Applicant's Income

Verification

A military **LES** (Leave and Earnings Statement) is required instead of a VOE (VA Form 26-8497).

- The LES must furnish the same information as a VOE.

The LES must be **no more than 120 days old** (180 days for new construction).

- For loans closed automatically, the date of the LES must be within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, the date of the LES must be within 120 days of the date the application is received by VA (180 days for new construction).

The LES **must** be an **original or a copy** certified by the lender to be a true copy of the original.

IN ADDITION, identify service members who are within 12 months of release from active duty or end of contract term. Find the date of expiration of the applicant's current contract for active service on the LES (for an enlisted service member) or on an officer's orders. For a National Guard or Reserve member, find the expiration date of the applicant's current contract.

Continued on next page

5.12 Income, Continued

Active Military Applicant's Income (continued)

Verification (continued)

If the date is **within 12 months** of the anticipated date that the loan will close, the loan package **must** also include **one** of the following 4 items/combinations of items to be acceptable:

- Documentation that the service member has already reenlisted or extended his/her period of active duty to a date beyond the 12 month period following the projected closing of the loan

OR

- Verification of a valid offer of local civilian employment following the release from active duty
 - ◆ All data pertinent to sound underwriting procedures (date employment will begin, earnings, etc.) must be included

OR

- A statement from the service member that he/she intends to reenlist or extend his/her period of active duty to a date beyond the 12 month period

PLUS

- A statement from the service member's commanding officer confirming that:
 - ◆ The service member is eligible to reenlist or extend his/her active duty as indicated

AND

- ◆ The commanding officer has no reason to believe that such reenlistment or extension of active duty will not be granted

OR

- Documentation of other unusually strong positive underwriting factors, such as:
 - ◆ A downpayment of at least 10 percent
 - ◆ Significant cash reserves
 - ◆ Clear evidence of strong ties to the community coupled with a nonmilitary spouse's income so high that only minimal income from the active duty service member is needed to qualify

Continued on next page

5.12 Income, Continued

Active Military Applicant's Income (continued)

Analysis: Base Pay

Consider the applicant's base pay as stable and reliable

EXCEPT

If the applicant is within 12 months of release from active duty:

- Analyze the additional documentation submitted.
- If the applicant will not be reenlisting, determine:
 - ◆ Whether the applicant's anticipated source of income is stable and reliable
- AND/OR
- ◆ Whether unusually strong underwriting factors compensate for any unknowns regarding future sources of income.

Verification: Military Quarters Allowance

To use a **military quarters allowance** in the underwriting analysis, obtain:

- DD Form 1747, Status of Housing Availability, indicating that item b (Permanent) or item d of that form apply. This form serves as notice that:
 - ◆ Quarters will not be made available to the applicant
 - ◆ The applicant is authorized to make permanent arrangements for nonmilitary housing

EXCEPT

DD Form 1747 is **not** required in **either** of the following circumstances:

- When the applicant's duty assignment **clearly** qualifies the applicant for quarters allowance
 - ◆ Examples include personnel stationed overseas whose families remain stateside, recruiters on detached duty, and military personnel stationed in areas where no on-base housing exists.
 - ◆ Include an explanation with the loan submission of the circumstances justifying omission of the form.

OR

- When VA has established that the waiting lists for on-base housing in a particular geographic area are so long that it is improbable that individuals desiring to purchase off-base housing would be precluded from doing so in the foreseeable future
 - ◆ VA issues a release to all lenders in the jurisdiction to inform them of its determination.

Continued on next page

5.12 Income, Continued

Active Military Applicant's Income (continued)

Analysis: Military Quarters Allowance

The lender may include a **military quarters allowance** in effective income if properly verified. In most areas there will be an additional **variable housing allowance**, which can also be included.

- The military quarters and variable housing allowances are **not** taxable income.
- Ensure that the applicant meets the occupancy requirements set forth in paragraph 3.16.

Verification: Subsistence and Clothing Allowances

Any subsistence (rations) and clothing allowances are indicated on the LES.

Analysis: Subsistence and Clothing Allowances

The lender may include verified allowances in effective income.

- These allowances are **not** taxable income.
- **NOTE:** The clothing allowance generally appears on the LES as an **annual** amount and must be converted into a **monthly** amount for the loan analysis.

Verification: Other Military Allowances

To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance, and how long the applicant has received it.

Analysis: Other Military Allowances

Examples include propay, flight or hazard pay, overseas pay and combat pay.

- All of these are subject to periodic review and/or testing of the recipient to determine continued eligibility.
- These types of allowances are considered taxable income by the IRS, unlike housing, clothing and subsistence allowances.

Military allowances may be included in effective income **only** if such income can be expected to continue because of the nature of the recipient's assigned duties.

- Example: Flight pay verified for a pilot

If duration of the military allowance cannot be determined, this source of income may still be used to offset obligations of 10 to 24 months duration.

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5.12 Income, Continued

Income from Service in the Reserves or National Guard

Income derived from service in the Reserves or National Guard may be included in effective income **if** the length of the applicant's total active and Reserve/Guard service indicates a strong probability that the Reserve/Guard income will continue.

Otherwise, this income may be used to offset obligations of 10 to 24 months duration.

Income of Recently Discharged Veterans

Verification

Obtain verification of any of the following which apply:

- Employment income
 - ◆ See "Income from Non-Military Employment" for verification requirements
- Retirement income
- Military separation payments

If the applicant has been employed in a position for only a short time, obtain a statement from the employer that the applicant is performing the duties of the job satisfactorily and the probability of continued employment is favorable.

Analysis: Prospects for Continued Employment

Cases involving recently discharged veterans often require the underwriter to exercise a great deal of **flexibility and judgment** in determining whether the employment income will continue in the foreseeable future. This is because some veterans may have little or no employment experience other than their military occupation. Continuity of employment is essential for a veteran with no retirement income or insufficient retirement income to support the loan obligation.

For recently discharged veterans who have been in their new jobs only a very **short time**, analyze prospects for continued employment as follows:

- If the duties the applicant performed in the military are similar or directly related to the duties of the present position, use this as one indicator that the employment is likely to continue.
 - If the applicant's current job requires skills for which the applicant has had no training or experience, greater time in the current job may be needed to establish stability
-

Continued on next page

5.12 Income, Continued

Income of Recently Discharged Veterans (continued)

Analysis: Prospects for Continued Employment (continued)

- If the applicant's retirement income, compared to total estimated shelter expense, long-term debts and family living expense, is such that only minimal income from employment is necessary to qualify from the income standpoint, resolve doubt in favor of the applicant.

EXAMPLES:

- Qualifying short-term employment - An applicant who was an airplane mechanic in the military is now employed as an auto mechanic or machinist.
- Nonqualifying short-term employment - An applicant who was an Air Force pilot is now employed as an insurance salesperson on commission.

Most cases fall somewhere between these extremes. Fully develop the facts of each case in order to make a determination.

Apply the guidelines under the "Self-Employment Income" heading to a recently discharged veteran who is self-employed.

Analysis: Voluntary Separation Payments

Two types of voluntary separation payments are used to facilitate military downsizing:

(1) Special Separation Benefit (SSB)

- A one-time lump sum
- Taxable in the year received
- Treat the same as any substantial cash reserve

AND

(2) Voluntary Separation Incentive (VSI)

- Annual payments
- Taxable in the year received
- Include in effective income
- Calculated by multiplying the veteran's years of service times two
- Requires a minimum of 6 years service (equates to a minimum of 12 years annual payments)
- If the veteran receives both VSI and VA disability compensation payments, the VSI is reduced by the amount of disability compensation HOWEVER
 - ♦ If the disability compensation is related to an earlier period of service and the VSI a later period of service, the VSI is **not** reduced by the amount of

Continued on next page

5.12 Income, Continued

Income of Recently Discharged Veterans (continued)

Analysis: Voluntary Separation Payments (continued)

disability compensation.

- VSI is reduced by the amount of any base pay or compensation a member receives for active or reserve service, including inactive duty training.
 - The veteran can designate a beneficiary for VSI payments in the event of death.
-

Rental Income

Verification: Multi-Unit Property Securing the VA Loan

Verify:

- Cash reserves totaling at least 6 months mortgage payments (principal, interest, taxes, and insurance - PITI)

AND

- Documentation of the applicant's prior experience managing rental units or other background involving both property maintenance and rental

Analysis: Multi-Unit Property Securing the VA Loan

Include the prospective rental income in effective income only if:

- Evidence indicates the applicant has a reasonable likelihood of success as a landlord

AND

- Cash reserves totaling at least 6 months mortgage payments are available.

The amount of rental income to include in effective income is based on 75 percent of:

- Verified prior rent collected on the units (existing property)

OR

- The appraiser's opinion of the property's fair monthly rental (proposed construction)

NOTE: A percentage greater than 75 percent may be used if the basis for such percentage is adequately documented.

Verification: Rental of the Property Applicant Occupied Prior to the New Loan

Obtain a copy of the rental agreement on the property, if any.

Continued on next page

5.12 Income, Continued

Rental Income (continued)

Analysis: Rental of the Property Applicant Occupied Prior to the New Loan

Use the prospective rental income **only** to offset the mortgage payment on the rental property and **only if** there is no indication that the property will be difficult to rent.

- This rental income may **not** be included in effective income.

Obtain a working knowledge of the local rental market. If there is no lease on the property, but the local rental market is very strong, the lender may still consider the prospective rental income for offset purposes.

Verification: Rental of Other Property Not Securing the VA Loan

Obtain:

- Documentation of cash reserves totaling at least 3 months mortgage payments (principal, interest, taxes, and insurance - PITI)
- Individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years, which show rental income generated by the property

Analysis: Rental of Other Property Not Securing the VA Loan

Rental income verified as stable and reliable may be included in effective income.

If there is little or no prior rental history on the property, make a determination based on review of:

- Documentation of the applicant's prior experience managing rental units or other background involving both property maintenance and rental
- Any leases on the property
- The strength of the local rental market

Property depreciation claimed as a deduction on the tax returns may be included in effective income.

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5.12 Income, Continued

Alimony, Child Support, and Maintenance Payments

See the “ECOA Considerations” heading in this section.

Verify the income if the applicant wants it to be considered. The payments must be likely to continue in order to include them in effective income.

Factors used to determine whether the payments will continue include, but are not limited to:

- Whether the payments are received pursuant to a written agreement or court decree
 - The length of time the payments have been received
 - The regularity of receipt
 - The availability of procedures to compel payment
-

Automobile or Similar Allowances

Generally, automobile allowances are paid to cover specific expenses related to an applicant’s employment, and it is appropriate to use such income to offset a corresponding car payment.

However, in some instances, such an allowance may exceed the car payment. With proper documentation, income from a car allowance which exceeds the car payment can be counted as effective income. Likewise, any other similar type of allowance which exceeds the specific expenses involved may be added to gross income to the extent it is documented to exceed the actual expense.

Other Types of Income

The **test** for other types of income:

- If it is reasonable to conclude that such income will **continue in the foreseeable future**, include it in effective income.

Otherwise, consider whether it is reasonable to use the income to offset obligations of 10 to 24 months duration.

“Other” types of income which may be considered as effective income include, but are not limited to:

- Pension or other retirement benefits
- Disability income
- Dividends from stocks
- Interest from bonds, savings accounts, etc.
- Royalties

Continued on next page

5.12 Income, Continued

Other Types of Income (continued)

The lender may include verified income from public assistance programs in effective income if evidence indicates it will probably continue for 3 years or more.

The lender may include verified workers' compensation income that will continue in the foreseeable future, if the veteran chooses to reveal it.

The lender may include verified income received specifically for the care of any foster child(ren). Generally, however, foster care income is to be used **only** to balance the expenses of caring for the foster child(ren) against any increased residual income requirements.

Do **not** include temporary income items such as VA educational allowances and unemployment compensation in effective income.

- **Exception:** If unemployment compensation is a regular part of the applicant's income due to the nature of his or her employment (e.g., seasonal work), it may be included.
-

5.13 Income Taxes and Other Deductions from Income

Income Tax and Social Security Deductions

Determine the appropriate deductions for Federal income tax and Social Security using the "Employer's Tax Guide," Circular E, issued by the Internal Revenue Service.

Determine the appropriate deductions for state and local taxes using similar materials provided by the States.

The lender may consider the applicant's potential tax benefits from obtaining the loan (e.g., mortgage interest deduction) in the analysis. To do so:

- Determine what the applicant's withholding allowances will be, using the instructions and worksheet portion of IRS Form W-4, Employee's Withholding Allowance Certificate
- Apply that withholding number when calculating Federal and State income tax deductions

Continued on next page

5.13 Income Taxes and Other Deductions from Income,

Continued

Income Tax Credits from Mortgage Credit Certificates

Mortgage Credit Certificates (MCCs) issued by State and local governments may qualify a borrower for a Federal tax **credit**. The Federal tax credit is based on a certain percentage of the borrower's mortgage interest payment.

Lenders must provide a copy of the MCC to VA with the loan package which indicates:

- The percentage to be used to calculate the tax credit

AND

- The amount of the **certified** indebtedness.
 - ◆ The certified indebtedness can be comprised of a loan incurred by the veteran to acquire a principal residence or a qualified home improvement or rehabilitation loan.

If the percentage on the MCC is more than 20 percent, there is an annual limit on the tax credit equal to the lesser of \$2,000 or the borrower's maximum tax liability. Calculate the tax credit by applying the specified percentage to the interest paid on the **certified** indebtedness. Then apply the annual limit.

EXAMPLE: The MCC shows a 30 percent rate and \$100,000 certified indebtedness. The borrower will pay approximately \$8,000 in annual mortgage interest. Borrower's estimated total Federal income tax liability is \$9,000.

Calculate the tax credit as follows:

- 30 percent of \$8,000 = \$2,400
- Apply the annual \$2,000 limit
- The tax credit will be \$2,000
- Use \$167 (one-twelfth of \$2,000) in the monthly analysis

NOTE: If the mortgage on which the borrower pays interest is **greater** than the amount of **certified** indebtedness, limit the interest used in the tax credit calculation to that portion attributable to the **certified** indebtedness.

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5.14 Assets

Amount of Cash Required

The applicant or spouse must have sufficient cash to cover:

- Any closing costs or points which are the applicant's responsibility and are not financed in the loan

AND

- If a graduated payment mortgage, the down payment

AND

- If the sales price exceeds the reasonable value established by VA, the difference between the sales price and the loan amount.

VA does **not** require the applicant to have additional cash to cover a certain number of mortgage payments, unplanned expenses, or other contingencies.

However, the applicant's ability to accumulate liquid assets and the current availability of liquid assets for unplanned expenses **should** be considered in the overall credit analysis.

Verification Requirement

Verify all liquid assets owned by the applicant or spouse to the extent they are needed to close the loan. In addition, verify any liquid assets that may have a bearing on the overall credit analysis; i.e., significant assets.

- Use VA Form 26-8497a, Request for Verification of Deposit, as appropriate.
 - ◆ Acceptable alternative documentation is the original or certified true copies of the applicant's last two bank statements.
- Verifications must be no more than 120 days old (180 days for new construction).
 - ◆ For automatically closed loans, this means the date of the deposit verification is within 120 days of the date the note is signed (180 days for new construction).
 - ◆ For prior approval loans, this means the date of the deposit verification is within 120 days of the date the application is received by VA (180 days for new construction).

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5.14 Assets, Continued

Pending Sale of Real Estate

In some cases, the determination that the income and/or assets of a veteran are sufficient to qualify for the loan depends upon the consummation of the sale of presently owned real property.

- Sales proceeds may be necessary to make a downpayment or pay closing costs on the VA loan.
- In addition, the lender may want to consider the amount of equity the applicant has accumulated in the property and the extent to which that equity is attributable to the applicant's investment rather than the housing market, in evaluating the applicant's ability to manage assets.

The lender may consider any downpayment or costs on the VA loan as provided for by the sale of the property if available information provides a reasonable basis for concluding the equity to be realized from the sale will be sufficient for this purpose.

- See paragraph 4.05g(6) for prior approval loans which depend upon the sale of property for the borrower to qualify.
-

5.15 Debts and Obligations

Verification

Significant debts and obligations of the applicant **must be verified and rated**.

Obtain a credit report.

- See paragraph 5.17 for details on the type of credit report required.

For obligations not included on the credit report which are revealed on the application or through other means, the lender must obtain a verification of deposit showing the obligation or other written verification directly from the creditor.

- The lender must also separately verify accounts listed as "will rate by mail only" or "need written authorization."
-

Continued on next page

5.15 Debts and Obligations, Continued

Verification (continued)

When a pay stub or leave-and-earnings statement indicates an **allotment**, the lender must investigate the nature of the allotment to determine whether the allotment is related to a debt.

For obligations that have not been rated on the credit report or elsewhere, obtain the verification and rating directly from the creditor.

- Include a written explanation for any obligation that is not rated.

Resolve all discrepancies. If the credit report or deposit verification reveals significant debts or obligations which were not divulged by the applicant:

- Obtain clarification as to the status of such debts from the applicant

THEN

- Verify any remaining discrepancies with the creditor.

Credit reports and verifications must be **no more than 120 days old** (180 days for new construction).

- For automatically closed loans, this means the date of the credit report or verification is within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, this means the date of the credit report or verification is within 120 days of the date the application is received by VA (180 days for new construction).

ECOA prohibits requests for, or consideration of, credit information on a spouse who will not be contractually obligated on the loan **except**:

- If the applicant is relying on alimony, child support, or maintenance payments from the spouse (or former spouse)

OR

- In community property states.
 - ♦ If the property is located in a community property state, VA requires consideration of the spouse's credit information (whether or not the spouse will be personally liable on the note and whether or not the applicant and spouse choose to have the spouse's income considered)

Continued on next page

5.15 Debts and Obligations, Continued

Verification of Alimony and Child Support Obligations

The payment amount on any alimony and/or child support obligation of the applicant **must** be verified.

Do **not** request documentation of an applicant's divorce unless it is necessary to verify the amount of any alimony or child support liability **indicated by the applicant**.

If, however, in the routine course of processing the loan, the lender encounters direct evidence (e.g., in the credit report) that a child support or alimony obligation exists, make any inquiries necessary to resolve discrepancies and obtain the appropriate verification.

**Analysis of
Debts and
Obligations**

Deduct **significant** debts and obligations from total effective income when determining ability to meet the mortgage payments.

Significant debts and obligations include:

- ◆ Debts and obligations with a remaining term of 10 months or more; i.e., long-term obligations **AND**
- Accounts with a term less than 10 months that require payments so large as to cause a severe impact on the family's resources for **any** period of time.

Example: Monthly payments of \$300 on an auto loan with a remaining balance of \$1,500, even though it should be paid out in 5 months, would be considered **significant**. The payment amount is so large as to cause a severe impact on the family's resources during the first, most critical, months of the home loan.

Determine whether debts and obligations which do **not** fit the description of "significant" should be given any weight in the analysis. They may have an impact on the applicant's ability to provide for family living expenses.

If a married veteran wants to obtain the loan in his or her name only, the veteran may do so without regard to the spouse's debts and obligations in a non-community property state. However, in community property states, the spouse's debts and obligations must be considered even if the veteran wishes to obtain the loan in his or her name only.

Debts assigned to an ex-spouse by a divorce decree will not generally be charged against a veteran-borrower.

- This includes debts that are now delinquent.

Continued on next page

5.15 Debts and Obligations, Continued

**Applicant as
Co-obligor on
Another's
Loan**

The applicant may have a contingent liability based on co-signing a loan.

IF

- There is evidence that the loan payments are being made by someone else

AND

- There is no reason to believe that the applicant will have to participate in repayment of the loan

THEN

- The lender may exclude the loan payments from the monthly obligations factored into the net effective income calculation in the loan analysis.
-

**Pending Sale of
Real Estate**

In some cases, the determination that the income and/or assets of a veteran are sufficient to qualify for the loan depends upon the consummation of the sale of presently owned real property. Sales proceeds may be necessary to:

- Clear the outstanding mortgage(s) against the property
- Pay off outstanding consumer obligations

AND/OR

- Make a downpayment or pay closing costs on the VA loan.

Alternatively, the veteran may intend to sell the property with the buyer assuming the outstanding mortgage obligation.

The lender may disregard the payments on the outstanding mortgage(s) and any consumer obligations which the veteran intends to clear if available information provides a reasonable basis for concluding the equity to be realized from the sale will be sufficient for this purpose.

- See paragraph 4.05g(6) for prior approval loans which depend upon the sale of property for the borrower to qualify.
-

**Secondary
Borrowing**

If the applicant plans to obtain a second mortgage simultaneously with the VA-guaranteed loan:

- Include the second mortgage payment as a significant debt

From an underwriting standpoint, the veteran must **not** be placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA.

5.16 Required Search for and Treatment of Debts Owed to the Federal Government

The Search Requirement

There are **two** separate procedures the lender must follow. Both should be initiated **immediately** upon receipt of a loan application to avoid delays in closing the loan.

(1) For **all veteran**-applicants and **veteran**-coobligors (including spouse if a veteran), on **all** VA loans, initiate an inquiry with VA regarding debt related to VA benefits.

- Procedures are discussed under the “Debt Related to VA Benefits” heading that follows.

(2) For **all** applicants and co-obligors (veteran or nonveteran) on all VA loans **except** Interest Rate Reduction Refinancing Loans (IRRRLs), perform a **CAIVRS** inquiry.

- See the “CAIVRS Procedures “ heading below.
-

Debt Related to VA Benefits

Before processing **any** loan involving a veteran, the lender must submit VA Form 26-8937, Verification of VA Benefit-Related Indebtedness, to the Finance Officer at the same VA office where the loan application and/or closed loan package will be sent. VA will complete and return the form to the lender.

- The loan cannot be submitted for prior approval or approved under the automatic procedure until the lender obtains the completed form from VA.
- The lender must submit the completed form with the loan package.

IF the form indicates that the applicant receives nonservice-connected pension or has been rated incompetent by VA, the loan **cannot** be closed automatically.

- Submit the loan for prior approval.

IF the form indicates that the applicant has any of the following:

- An outstanding indebtedness of overpaid education, compensation or pension benefits
- An education or direct home loan in default
- An outstanding indebtedness resulting from payment of a claim on a prior guaranteed home loan

OR

5.16 Required Search for and Treatment of Debts Owed to the Federal Government, Continued

Debt Related to VA Benefits (continued)

- A repayment plan for any of these debts that is not current,

THEN

One of the following must accompany the loan package:

- Evidence of payment in full of the debt

OR

- Evidence of a current repayment plan acceptable to VA AND evidence that a promissory note has been executed by the veteran for the entire balance of the debt.

NOTE: No promissory note is required in cases referred to the Department of Justice, General Accounting Office, or VA Regional Counsel for judicial enforcement. In these cases, VA will obtain information on the applicant's debt status from these parties and relay pertinent information to the lender.

VA may find a repayment plan acceptable if:

- The veteran has been satisfactorily making payments on a repayment plan in effect prior to the lender's inquiry

OR

- The veteran's overall credit history and anticipated financial capacity after the proposed loan is made indicate a reasonable likelihood that the repayment plan will be honored AND the outstanding amount of indebtedness is not so large that it would prevent payment in full within a reasonable period (approximately one year)

OR

- The case involves unusually meritorious circumstances.
 - ◆ Example: Consideration would be given to a veteran with an outstanding credit history and adequate income whose debt balance is too large to be reasonably paid out in less than 18 months to 2 years.
 - ◆ VA will offer special consideration to a veteran's claim that he or she was not previously aware of an overpayment of benefits.

Continued on next page

5.16 Required Search for and Treatment of Debts Owed to the Federal Government, Continued

What is CAIVRS?

CAIVRS is a HUD-maintained computer information system which enables participating lenders to learn when an applicant has previously defaulted on a federally-assisted loan. The system's interactive voice response function provides instant credit information.

The database includes default information from the Department of Agriculture, the Small Business Administration, the Department of Education, HUD, and VA.

The VA default information included in the database relates to:

- Overpayments on education cases
 - Overpayments on disability benefits income
 - Claims paid due to home loan foreclosures
-

CAIVRS Procedures

VA assigns an 11-digit VA ID code to each new lender, then automatically forwards the ID code to HUD with a request to grant the lender CAIVRS access. The lender can begin accessing CAIVRS within several weeks of its VA ID Code assignment.

Perform a CAIVRS screening on each applicant and any co-obligor **immediately** upon receipt of a loan application. CAIVRS screenings are **not** required on Interest Rate Reduction Refinancing loan applicants. Step-by-step instructions follow. (See also HUD Mortgagee Letter 92-31).

Step	Action
1	Call CAIVRS using a touch-tone telephone. Dial 301-344-4000 Monday through Saturday 8:00 a.m. to 8:00 p.m. eastern standard time.
2	You will hear, "Welcome to the HUD Voice Response System. To access the Credit Alert System, press 1. To access the Line of Credit Control System, press 2. If you have completed your call, press Zero. Thank you." <ul style="list-style-type: none">• Enter 1.

Continued on next page

5.16 Required Search for and Treatment of Debts Owed to the Federal Government, Continued

CAIVRS Procedures (continued)

Step	Action
3	<p>You will hear, "You have reached the HUD Credit Alert System. Please enter your credit alert access code and then press #."</p> <ul style="list-style-type: none"> • Enter the first 10 digits of your VA lender ID number, then the “#” sign. • CAIVRS will only allow one second attempt to enter an access code. The session is terminated if the second attempt fails.
4	<p>If the lender is authorized to process more than one loan type, you will hear a menu. "If you are processing a HUD Title I loan, press 1, or if you are processing a FHA Single Family mortgage loan, press 2, or if you are processing a HUD 312 LPA, press 3, or if you are processing a Veterans Affairs loan, press 4, or if you are...(etc.),...then press #."</p> <ul style="list-style-type: none"> • Enter 4, then “#”.
5	<p>You will hear, "Please now enter applicant's Social Security Number and then press * OR the tax identification number and then press #."</p> <ul style="list-style-type: none"> • Enter the appropriate number and symbol.
6	<p>You will hear, "You have entered Social Security Number ---- (repeat of number entered) or tax identification number ----. Please enter 'Y' if this is correct, or 'N' if not correct."</p> <ul style="list-style-type: none"> • Enter "Y" if correct. • If incorrect, enter "N" and repeat step 5.
7	<p>If there is no match, you will hear, "There are no claims, foreclosures or defaults for this borrower."</p> <p>If there is a match, you will hear a message reciting:</p> <ul style="list-style-type: none"> • The type of match (For example, "There is a foreclosure on this borrower.") • The case number (For example, "DVA default ---- ") • The point of contact referral message ("For information, please call area code --- --- ---- ") <p>Copy down all pertinent information provided.</p>

Continued on next page

5.16 Required Search for and Treatment of Debts Owed to the Federal Government, Continued

CAIVRS Procedures (continued)

Step	Action
8	You will hear, "Credit Alert Confirmation Code is ----- ." • Copy down the confirmation code for future identification of the particular inquiry.
9	You will hear, "If you would like the access information repeated, press 1, or if you would like to enter another applicant for the same type of loan, press 2, or for a different type of loan press 3." • Enter 1 (To have the applicant's information repeated) OR • Enter 2 (Then return to step 5) OR • Enter 3 (Then return to step 4) OR • Hang up (if you are finished).
10	If you remain on the line you will hear, "To return to the main menu press zero. If call completed, you may hang up now. Thank you for using the HUD Voice Response System." • Enter O OR • Hang up.
11	Enter the CAIVRS confirmation code on VA Form 26-6393 , Loan Analysis, as evidence the screening was performed. • Enter the code in the space to the right of the "NO" block in item 47.

If the CAIVRS screening indicates an applicant (or co-obligor) is presently delinquent or has had a foreclosure or a claim paid on a loan made, guaranteed or insured by a Federal agency, take the following actions:

Step	Action
A	Suspend processing of the loan application.
B	Contact the applicant or co-obligor for information regarding the loan default, foreclosure or claim. • If a previous VA loan is involved, the applicant may call 1-800-827-0648 to make arrangements to repay the debt.

Continued on next page

5.16 Required Search for and Treatment of Debts Owed to the Federal Government, Continued

CAIVRS Procedures (continued)

Step	Action
C	Contact the Federal agency that reported the applicant to CAIVRS if further information is needed. <ul style="list-style-type: none"> • Use the phone number provided by CAIVRS (step 7 above).
D	If the CAIVRS-provided point of contact does not provide a satisfactory solution, or if the applicant believes the CAIVRS information is erroneous, the lender must contact the agency point(s) of contact in the following list.

Program to Which the Default Relates	Contact
HUD Title I	The local Title I Debt Management Centers
HUD Title II	The local HUD field offices
Section 312 loans	Department of Housing & Urban Development Rehabilitation Loans and Homesteading Division 451 Seventh Street, SW, Room 7168 Washington, DC 20410 Telephone: 202-898-1000 REFER TO CAIVRS INFORMATION
SBA loans	Small Business Administration Operations Assistance Branch 409 Third Street, SW Washington, DC 20416 Telephone: 202-205-6481
USDA loans	USDA/Rural Housing Service Quality Assurance Branch 1520 Market St., FC-351, Room 3519 St. Louis, MO 63103 Telephone: 314-539-2492
DVA loans	Department of Veterans Affairs Debt Management Center Bishop Henry Whipple Federal Bldg. Fort Snelling St. Paul, MN 55111 Telephone: 1-800-827-0648
Education loans	The Education Regional Offices

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5.16 Required Search for and Treatment of Debts Owed to the Federal Government, Continued

CAIVRS Procedures (continued)

Give full consideration to the CAIVRS information, and any subsequent clarifying information provided, in applying VA credit standards.

- Consider the terms of any repayment plan in analyzing monthly debt payments.
- Consider any delinquencies in determining creditworthiness.

CAIVRS information is **only** for the lender's and applicant's use in processing the loan application.

- Only those persons having responsibility for screening applicants and/or co-obligors may use CAIVRS. **ANY OTHER USE IS UNAUTHORIZED.**
-

Treatment of Federal Debts

An applicant **cannot** be considered a satisfactory credit risk if he or she is presently delinquent or in default on any debt to the Federal Government

UNTIL

The delinquent account has been brought current or satisfactory arrangements have been made between the applicant and the Federal agency.

- The refinancing of a delinquent VA loan with an IRRRL satisfies this requirement.

An applicant **cannot** be considered a satisfactory credit risk if he or she has a judgment lien against his or her property for a debt owed to the Government

UNTIL

The judgment is paid or otherwise satisfied.

5.17 Credit History

Credit Report Standards

Credit reports used in analyzing VA loans must be either:

- Three-file Merged Credit Reports (MCR)

OR

- Residential Mortgage Credit Reports (**RMCR**).
-

Continued on next page

5.17 Credit History, Continued

Credit Report Standards (continued)

The credit report must be **less than 120 days old** (180 days for new construction).

- For automatically closed loans, the date of the credit report must be within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, the date of the credit report must be within 120 days of the date the application is received by VA (180 days for new construction).

If an RMCR is Used

The standards applicable to an RMCR include, but are not limited to, the following:

- The report must be prepared by a reputable credit reporting agency.
- Each account with a balance must have been checked with the creditor within 90 days of the date of the credit report.
- For each debt listed, the report must provide the creditor's name, date the account was opened, high credit, current status, required payment, unpaid balance, and payment history.
- The report must name at least two national repositories of credit records contacted for each location in which the borrower has resided during the most recent two years.
 - ◆ Separate repository inquiries are required for any coborrowers with individual credit records.
- The report must include all available public records information that is not considered obsolete under the Fair Credit Reporting Act;
 - ◆ e.g., bankruptcies, judgments, law suits, foreclosures and tax liens.
- The RMCR must be an original report, with no erasures, whiteouts, or alterations.
- The report must contain a 24 month employment and residency history.
- All inquiries made within the last 90 days must be included on the report.

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5.17 Credit History, Continued

Credit Report Standards (continued)

VA may decline to accept a credit report which does not meet these standards.

- VA will notify the lender and the credit reporting agency of how quality standards are not being met.
 - ♦ If the problem continues, VA will inform all participating lenders that credit reports from the particular credit reporting agency are unacceptable.

Verification and Rating of Debts and Obligations

See the “Verification” heading in paragraph 5.15 for requirements.

**How to
Analyze Credit**

The applicant's past repayment practices on obligations are the best indicator of his or her **willingness** to repay future obligations. Emphasis should be on the applicant's **overall** payment patterns rather than isolated occurrences of unsatisfactory repayment. Determine whether the applicant (and spouse, if applicable) are satisfactory credit risks based on a careful analysis of the credit report and other credit data.

Rent and Mortgage Payment History

The applicant's rental history and any outstanding, assumed, or recently retired mortgages must be **verified and rated**.

- Housing expense payment history is often the best indicator of how motivated the applicant is to make timely mortgage payments in the future.

Absence of Credit History

For applicants with no established credit history, base the determination on the applicant's payment record on utilities, rent, automobile insurance, or other expenses that applicant has paid.

Absence of a credit history is **not** generally considered an adverse factor. It may result when:

- Recently discharged veterans have not had an opportunity to develop a credit history
- Applicants have routinely used cash rather than credit
- Applicants have not used credit since some disruptive credit event such as bankruptcy or debt proration through consumer credit counseling
 - ◆ In these cases, develop evidence of timely payment of noninstallment obligations such as rent and utilities **since** the disruptive credit event.
 - ◆ For bankruptcy cases, see the "Bankruptcy" heading.

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5.17 Credit History, Continued

How to Analyze Credit (continued)

Accounts in the Spouse's Name

Under ECOA -

Upon the applicant's request, the lender must consider any account reported in the name of the applicant's spouse or former spouse that the applicant can demonstrate accurately reflects the applicant's creditworthiness.

Consideration of the Spouse's Credit History

ECOA prohibits requests for, or consideration of, the credit of a spouse who will not be contractually obligated on the loan **except**:

- If the applicant is relying on alimony, child support, or maintenance payments from the spouse (or former spouse)

OR

- In community property states.
 - ♦ If the property is located in a community property state, VA requires consideration of the spouse's credit (whether or not the spouse will be personally liable on the note and whether or not the applicant and spouse choose to have the spouse's income considered)
 - ♦ If a married veteran wants to obtain the loan in his or her name only, the veteran may do so without regard to the spouse's credit **only** in a non-community property state.

Adverse Data

In circumstances not involving bankruptcy, satisfactory credit is generally considered to be reestablished after the veteran, or veteran and spouse, have made satisfactory payments for **12 months** after the date of the last derogatory credit item.

If the applicant and/or spouse are determined satisfactory credit risks in spite of derogatory credit information, include an explanation of the basis for the determination.

For unpaid debts or debts that have not been paid timely:

- Pay-off of these debts **after** the acceptability of applicant's credit is questioned does **not** alter the unsatisfactory record of payment
- Lenders may consider a veteran's claim of bona fide or legal defenses regarding unpaid debts **except** when the debt has been reduced to judgment

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5.17 Credit History, Continued

How to Analyze Credit (continued)

Collection accounts do not necessarily have to be paid off as a condition for loan approval. Account balances reduced to judgment by a court must be either paid in full or subject to a repayment plan with a history of timely payments.

Consumer Credit Counseling Plan

If a veteran, or veteran and spouse, have prior adverse credit and are participating in a Consumer Credit Counseling plan, they may be determined to be a satisfactory credit risk if they demonstrate 12 months' satisfactory payments and the counseling agency approves the new credit.

If a veteran, or veteran and spouse, have good prior credit and are participating in a Consumer Credit Counseling plan, such participation is to be considered a neutral factor, or even a positive factor, in determining creditworthiness. Do not treat this as a negative credit item if the veteran entered the Consumer Credit Counseling plan **before** reaching the point of having bad credit.

Bankruptcy

The fact that a bankruptcy exists in an applicant's (or spouse's) credit history does **not** in itself disqualify the loan. Develop complete information on the facts and circumstances of the bankruptcy. Consider the reasons for the bankruptcy and the type of bankruptcy filing.

Bankruptcy Filed Under the Straight Liquidation and Discharge Provisions of the Bankruptcy Law

If the bankruptcy was discharged **more than 2 years ago**, it **may** be disregarded.

If the bankruptcy was discharged **within the last 1 to 2 years**, it is probably **not** possible to determine that the applicant or spouse is a satisfactory credit risk **unless** both of the following requirements are met:

- The applicant or spouse has obtained consumer items on credit subsequent to the bankruptcy and has satisfactorily made the payments over a continued period **AND**
 - The bankruptcy was caused by circumstances beyond the control of the
-

Continued on next page

5.17 Credit History, Continued

Bankruptcy (continued)

Bankruptcy Filed Under the Straight Liquidation and Discharge Provisions of the Bankruptcy Law (continued)

applicant or spouse such as unemployment, prolonged strikes, medical bills not covered by insurance, etc., and the circumstances are verified. Divorce is **not** generally viewed as beyond the control of the borrower and/or spouse. If the bankruptcy was caused by failure of the business of a self-employed applicant, it may be possible to determine that the applicant is a satisfactory credit risk if:

- ♦ The applicant obtained a permanent position after the business failed
 - ♦ There is no derogatory credit information prior to self-employment
 - ♦ There is no derogatory credit information subsequent to the bankruptcy
- AND
- ♦ Failure of the business was **not** due to the applicant's misconduct.

If a borrower or spouse has been discharged in bankruptcy within the past **12 months**, it will **not** generally be possible to determine that the borrower or spouse is a satisfactory credit risk.

Petition Under Chapter 13 of the Bankruptcy Code

This type of filing indicates an effort to pay creditors. Regular payments are made to a court-appointed trustee over a 2 to 3 year period or, in some cases, up to 5 years, to pay off scaled down or entire debts.

If the applicant has finished making all payments satisfactorily, the lender may conclude that the applicant has reestablished satisfactory credit.

If the applicant has satisfactorily made at least 12 months' worth of the payments and the Trustee or the Bankruptcy Judge approves of the new credit, the lender may give favorable consideration.

Continued on next page

5.17 Credit History, Continued

- Foreclosures** The fact that a home loan foreclosure (or deed-in-lieu of foreclosure) exists in an applicant's (or spouse's) credit history does **not** in itself disqualify the loan.
- Develop complete information on the facts and circumstances of the foreclosure.
 - Apply the guidelines provided for bankruptcies filed under the straight liquidation and discharge provisions of the bankruptcy law. See the preceding heading entitled "Bankruptcy."

If the foreclosure was on a VA loan, the applicant may not have full entitlement available for the new loan. Ensure that the applicant's Certificate of Eligibility reflects sufficient entitlement to meet any secondary marketing requirements of the lender.

5.18 Documentation for Automated Underwriting Cases

General VA has approved the Federal Home Loan Mortgage Corporation's (Freddie Mac's) Loan Prospector automated underwriting system for use in underwriting VA loans. The system incorporates VA's credit standards and processing requirements.

Lenders may use certain reduced documentation requirements on Loan Prospector cases, depending on the risk classification assigned to the loan, i.e., "Accept" or "Refer." The tables in this section describe the documentation waivers allowed for each of the two risk classifications. Documentation requirements are the **same** for these cases as for non-Loan Prospector cases **except** for any differences specified in the tables.

Always include a copy of the Loan Prospector Feedback Certificate with the guaranty submission.

Certification Because the Loan Prospector system will be making the determination that the loan satisfies credit and income requirements, cases receiving an "Accept" category will not require the underwriter's certification on VA Form 26-6393, Loan Analysis. Lenders will need to complete the following certification:

"I, the undersigned lender, hereby certify that case number (insert VA loan number) was processed through Loan Prospector and received an 'Accept'

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5.18 Documentation for Automated Underwriting Cases, Continued

(continued)

rating. I further certify that all information entered into the system has been verified and that any credit discrepancies have been reconciled.”

This certification, signed by an underwriter, must be submitted along with a copy of the Loan Prospector Feedback Certificate indicating the risk classification.

Documentation Guidelines for Credit History

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept
Types of credit reports used in reconciliation (par.5.17)	Use either of the following, if ≤ 90 days old: <ul style="list-style-type: none"> • Merged credit report • RMCR 	Use any of the following, if ≤ 90 days old: <ul style="list-style-type: none"> • Selected in-file report • All in-file reports • Merged credit report • RMCR
Explanation of discrepancies in reported debt (par. 5.15)	Provide written explanation for any single debt $>2\%$ of gross monthly income which appears on the credit report but is not listed on the application.	No explanation is required.
Verification of significant nonmortgage debt (par. 5.15)	Obtain direct verification for significant debts not reported on the credit report. Note: Significant means that the debt has a monthly payment exceeding 2% of the stable monthly income for all borrowers.	Same as Refer. Note: Perform manual downgrade to Refer if direct verification reveals more than 1x30 day late payment in the past 12 months for any of the omitted debts.
Mortgage payment history (par. 5.17)	Obtain direct verification when ratings are not available on mortgages that are any of the following: <ul style="list-style-type: none"> • Outstanding • Assumed • Recently retired A written explanation of mortgage payment history is required for borrowers with more than 1x30 day late payment for all mortgages for the past 12 months	Obtain direct verification when ratings are not available on mortgages that are any of the following: <ul style="list-style-type: none"> • Outstanding • Assumed • Recently retired Note: Perform manual downgrade to Refer if direct verification reveals more than 1x30 day late payment in the past 12 months for any mortgage debts.

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5.18 Documentation for Automated Underwriting Cases, Continued

Documentation Guidelines for Credit History (continued)

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept
Account balances (par. 5.15)	No re-verification is required for an account with an outstanding balance last updated <90 days before the date of the credit report, unless the account has a past due current status.	Same as Refer.
Rental payment history (par. 5.17)	Provide a written explanation when ratings are not available on the applicant's rental payment history.	No verification of rent is required when a minimum of 4 credit references is reported for all borrowers, each open for at least 4 years.
Derogatory credit information (par. 5.17)	Explain basis of satisfactory credit risk determination in spite of derogatory credit information in the Remarks section of VA Form 6393, Loan Analysis.	No explanation is required for adverse or derogatory credit information.

Documentation Guidelines for Employment/Income - ALL BORROWERS

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept
Employment gaps (par. 5.12)	No explanation for employment gaps is required if the gaps are <30 days.	No explanation for employment gaps is required if all of the following conditions are met: <ul style="list-style-type: none"> • Gaps are <60 days • New employment is \geq 6 months
Alimony and/or child support payments (par. 5.12)	Provide the following: <ul style="list-style-type: none"> • Proof of deposits on bank statements for 3 months • Front page and details of support payments from the divorce decree, indicating evidence of at least 3 years continuance 	Same as Refer.

Continued on next page

5.18 Documentation for Automated Underwriting Cases, Continued

Documentation Guidelines for Employment/Income - BORROWERS WHO ARE NOT SELF-EMPLOYED

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept
Verifying current employment for borrowers who are not self- employed (par. 5.12)	Document telephone contact verifying borrower's current employer. Use only 1 current pay stub (versus pay stubs for 1 month) provided that it covers at least 1 full month of employ-ment and contains the following: <ul style="list-style-type: none">• Year-to-date (YTD) information• Bonus information• Overtime information	Same as Refer.

Verifying previous employment (par. 5.12)	<p>Use a Verification of Employment (VOE) or any of the following, covering the 2 year period prior to closing:</p> <ul style="list-style-type: none"> • W-2 Forms • Income information obtained from the IRS via one of the following forms: <ul style="list-style-type: none"> ◆ Form 8821 (or alternate form acceptable to the IRS that collects comparable information) ◆ Form 4506 (or alternate form acceptable to the IRS that collects comparable information) 	<p>No VOE is required if the borrower has been with the same employer for 1 year and W-2 Forms for 1 previous year have been collected.</p> <p>No W-2 Forms are required for a borrower on active duty.</p> <p>No W-2 Forms are required if all of the following are met:</p> <ul style="list-style-type: none"> • Borrower with same employer ≥ 2 years • Employer phone contact verifies the length of employment and current status (still employed) • Borrower not self-employed or commissioned • Bonus, overtime, or secondary income not needed to qualify • Stable monthly income to be determined by using current base pay only (rather than total earnings) • Borrower signs one of the following for the previous 2 tax years: <ul style="list-style-type: none"> ◆ Form 8821 or Form 4506
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5.18 Documentation for Automated Underwriting Cases, Continued

Documentation Guidelines for Employment/Income - BORROWERS WHO ARE SELF-EMPLOYED

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept
Individual tax returns for self-employed borrowers (par. 5.12)	<p>Provide one of the following, with all line items captured:</p> <ul style="list-style-type: none"> • Signed copies of individual tax returns for the most recent 2 year period • Individual income information obtained from the IRS via one of the following forms: <ul style="list-style-type: none"> ♦ Form 8821 (or an alternate form acceptable to the IRS that collects comparable information) ♦ Form 4506 (or an alternate form acceptable to the IRS that collects comparable information) 	Same as Refer.
Balance sheets and profit and loss statements for self-employed borrowers (par. 5.12)	<p>No balance sheet or YTD Profit and Loss (YTD P&L) is required if any of the following occur:</p> <ul style="list-style-type: none"> • Individual and business income information is obtained from the IRS prior to closing, via one of the following forms: <ul style="list-style-type: none"> ♦ Form 8821 (or alternate form acceptable to the IRS that collects comparable information) ♦ Form 4506 (or alternate form acceptable to the IRS that collects comparable information) • Origination date is ≤ 7 months from the business' fiscal year end (for which tax returns were provided) • Borrower is a de minimus self-employed borrower 	No balance sheet or YTD P&L is required.

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5.18 Documentation for Automated Underwriting Cases, Continued

Documentation Guidelines for Employment/Income - BORROWERS WHO ARE SELF-EMPLOYED (continued)

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept
Business tax returns for self-employed borrowers (par. 5.12)	<p>Provide one of the following, with all line items captured:</p> <ul style="list-style-type: none"> Signed copies of business tax returns for the most recent 2 year period Business income information obtained from the IRS via one of the following forms: <ul style="list-style-type: none"> ♦ Form 8821 (or an alternate form acceptable to the IRS that collects comparable information) ♦ Form 4506 (or an alternate form acceptable to the IRS that collects comparable information) 	<p>No business tax returns are required if all of the following conditions are met:</p> <ul style="list-style-type: none"> Borrower proves ownership of the business for at least the past 5 years. Individual tax returns reflect consistent income for the past 2 years. No personal debt (revolving or installment) is being paid by the business (except business-use automobiles). Funds for down payment or closing costs are not from the business. Business structure (e.g., partnership, corporation, sole proprietorship) has not changed in the past 5 years. Loan is a purchase or no cash-out refinance. Business income is not being used to qualify the borrower.
Tax returns for de minimus self-employed borrowers (par. 5.12)	No business tax returns are required.	Same as Refer.

Continued on next page

5.18 Documentation for Automated Underwriting Cases, Continued

Documentation Guidelines for Assets

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept
Verify closing costs (par. 5.14)	Verify veteran's source of funds for payment of any difference between sales price and loan amount plus closing costs, if sales price exceeds reasonable value established by a CRV or Notice of Value (NOV).	No verification of veteran's source of funds is required if closing costs plus difference between the sales price of the property and the base loan amount is <4% of the lesser of the following: <ul style="list-style-type: none">• Sales price• Reasonable value established by a CRV or NOV
Verify assets to close in applicant's name (par. 5.14)	Provide original bank statements or certified true copies covering the most recent 2 month period in lieu of a Verification of Deposit (VOD).	Provide original bank statements or certified true copies covering most recent 1 month period in lieu of a VOD.

5.19 How to Complete VA Form 26-6393, Loan Analysis

5.19 How to Complete VA Form 26-6393, Loan Analysis, Continued

General

In order to properly enter information on VA Form 26-6393, the underwriter must understand and apply the guidelines provided in the preceding sections of this chapter.

Self-explanatory items are **not** discussed in this section.

Section C, Estimated Monthly Shelter Expenses

It is important to estimate these expenses accurately based on:

- Property location
- Type of house; e.g.,
 - ♦ Old or new
 - ♦ Large or small
 - ♦ Type of construction,

because the total (item 22) is carried down to item 43 as a deduction from monthly income to arrive at the balance available for family support.

Special instructions are listed in the following table.

Item	Special Instructions
16	If taxes are expected to increase, use the increased amount.
17	Include the flood insurance premium for properties located in special flood hazard areas.
18	If special assessments are anticipated, use the anticipated amount.
20	Consult local utility companies for current rates. Realistically estimate cost based on age, size, and type of construction of the house.
21	For condominiums or houses in a PUD (planned-unit development), include the monthly amount of maintenance assessment payable to the homeowner's association. <ul style="list-style-type: none">• If the assessment is less than the maximum provided in the covenants or master deed AND it appears likely that the assessment will be insufficient for operation of the condominium or PUD, include the maximum amount the veteran could be charged.

Continued on next page

5.19 How to Complete VA Form 26-6393, Loan Analysis,

Continued

Section D, Debts and Obligations

List **all** known debts and obligations of the applicant and spouse including any alimony and/or child support payments.

Place a check mark in the (☐) column next to any “significant” debt or obligation. See the “Analysis of Debts and Obligations” heading in paragraph 5.15 for an explanation of “significant.”

Job Related Expense

Include any costs for dependent care, significant commuting costs, and any other direct or incidental costs associated with the applicant’s (or spouse’s) employment. Check mark this item if total job related expenses are significant.

Item 33, Federal Income Tax

Enter the applicant’s estimated monthly Federal income tax.

- If the applicant has a Mortgage Credit Certificate, reduce the Federal income tax by the estimated tax credit.
 - ♦ (See the heading, “Income Tax Credits from Mortgage Credit Certificates,” in paragraph 5.13.)
-

Item 44, Balance Available for Family Support

Enter the appropriate residual income amount from the following tables in the “guideline” box. Residual income is the amount of net income remaining (after deduction of debts and obligations and monthly shelter expenses) to cover family living expenses such as food, health care, clothing, and gasoline.

The numbers are based on data supplied in the CES (Consumer Expenditures Survey) published by the Department of Labor’s Bureau of Labor Statistics. They vary according to loan size, family size, and region of the country.

Special Instructions for Using Tables

Count **all** members of the household (without regard to the nature of the relationship) when determining “family size,” including:

- An applicant’s spouse who is **not** joining in title or on the note
 - Any other individuals who depend on the applicant for support
 - ♦ For example, children from a spouse’s prior marriage who are not the applicant’s legal dependents
-

Continued on next page

5.19 How to Complete VA Form 26-6393, Loan Analysis, Continued

Item 44, Balance Available for Family Support (continued)

Special Instructions for Using Tables (continued)

Exception: The lender may **omit** any individuals from “family size” who are fully supported from a source of verified income which, for whatever reason, is **not** included in effective income in the loan analysis. For example:

- A spouse not obligated on the note who has stable and reliable income sufficient to support his or her living expenses
- A child for whom sufficient foster care payments or child support is received regularly

Reduce the residual income figure (from the following tables) by a minimum of 5 percent if:

- The applicant or spouse is an active-duty or retired serviceperson

AND

- There is a clear indication that he or she will continue to receive the benefits resulting from use of military-based facilities located near the property.

Use 5 percent unless the VA office of jurisdiction has established a higher percentage, in which case, apply the specified percentage for that jurisdiction.

A key to the geographic regions used in the tables follows the tables.

TABLE OF RESIDUAL INCOMES BY REGION

For loan amounts of **\$79,999 and below**

Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
over 5	Add \$75 for each additional member up to a family of 7.			

Continued on next page

5.19 How to Complete VA Form 26-6393, Loan Analysis, Continued

Item 44, Balance Available for Family Support (continued)

TABLE OF RESIDUAL INCOMES BY REGION

For loan amounts of **\$80,000 and above**

Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of 7.			

KEY TO GEOGRAPHIC REGIONS USED IN THE PRECEDING TABLES:

Northeast	Connecticut Maine Massachusetts	New Hampshire New Jersey New York	Pennsylvania Rhode Island Vermont
Midwest	Illinois Indiana Iowa Kansas	Michigan Minnesota Missouri Nebraska	North Dakota Ohio South Dakota Wisconsin
South	Alabama Arkansas Delaware District of Columbia Florida Georgia	Kentucky Louisiana Maryland Mississippi North Carolina Oklahoma	Puerto Rico South Carolina Tennessee Texas Virginia West Virginia
West	Alaska Arizona California Colorado	Hawaii Idaho Montana Nevada	New Mexico Oregon Utah Washington Wyoming

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5.19 How to Complete VA Form 26-6393, Loan Analysis, Continued

Item 45, Debt-to-Income Ratio

VA's debt-to-income ratio is a ratio of total monthly debt payments (housing expense, installment debts, etc.) to gross monthly income.

Add: Items 15 + 16 + 17 + 18 + 21 + 41 = Debt

Add: Items 32 + 39* = Income

Divide: Debt ÷ Income = Debt-to-Income Ratio

Round: To the nearest two digits

The "Debt-to-Income Ratio" heading in paragraph 5.20 contains special procedures to apply if the ratio exceeds 41 percent.

*Tax-free income may be "**grossed up**" for purposes of calculating the debt-to-income ratio only (**not** residual income). This is a tool that may be used to lower the debt ratio for veterans who **clearly** qualify for the loan. "Grossing up" involves adjusting the income upward to a pre-tax or gross income amount which, after deducting State and Federal income taxes, equals the tax-exempt income. Use current income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income. Do not add non-taxable income to taxable income before "grossing up."

Tax-free income includes certain military allowances, child support payments, workers' compensation benefits, disability retirement payments and certain types of public assistance payments. Verify that the income is indeed tax-free before "grossing up."

If "grossing up" is used, indicate such and provide the "grossed up" ratio in item 48, "Remarks."

Item 46, Past Credit Record

Indicate whether the applicant (and spouse, if applicable) is a satisfactory or unsatisfactory credit risk based on a complete analysis of credit data.

5.20 How to Analyze the Information on VA Form 26-6393

Residual Income

VA's minimum residual incomes (balance available for family support) are a **guide**. They should not automatically trigger approval or rejection of a loan. Instead, consider residual income in conjunction with all other credit factors.

An **obviously** inadequate residual income alone **can** be a basis for disapproving a loan.

If residual income is marginal, look to other indicators such as the applicant's credit history, and in particular, whether and how the applicant has previously handled similar housing expense.

Consider whether the purchase price of the property **may** affect family expense levels.

- For example, a family purchasing in a higher priced neighborhood may feel a need to incur higher-than-average expenses to support a lifestyle comparable to that in their environment, whereas a substantially lower priced home purchase may not compel such expenditures.

Also consider the ages of the applicant's dependents in determining the adequacy of residual income.

Debt-to- Income Ratio

VA's debt-to-income ratio is a ratio of total monthly debt payments (housing expense, installment debts, etc.) to gross monthly income. It is a **guide** and, as an underwriting factor, it is secondary to the residual income. It should not automatically trigger approval or rejection of a loan. Instead, consider the ratio in conjunction with all other credit factors.

A ratio **greater than 41 percent** requires close scrutiny **UNLESS**

- The ratio is greater than 41% solely due to the existence of tax-free income (Put notation regarding the tax-free income in the loan file or calculate an adjusted, smaller ratio based on "grossing up" of the tax-free income.)

OR

- Residual income exceeds the guideline by at least 20 percent.
-

Continued on next page

5.20 How to Analyze the Information on VA Form 26-6393, Continued

Debt-to-Income Ratio (continued)

Loans Closed Automatically with Ratio Greater than 41 Percent

Include a statement justifying the reasons for approval, signed by the underwriter's supervisor, **UNLESS** residual income exceeds the guideline by at least 20 percent.

The statement:

- Must not be perfunctory
 - Must list the compensating factors justifying approval of the loan
-

Credit History A poor credit history alone **is** a basis for disapproving a loan.

If credit history is marginal, look to other indicators such as residual income.

Compensating Factors Compensating factors may affect the loan decision. These factors are especially important when reviewing loans which are **marginal** with respect to residual income or debt-to-income ratio. They **cannot** be used to compensate for unsatisfactory credit.

Valid compensating factors should represent **unusual** strengths rather than mere satisfaction of basic program requirements.

- For example, the fact that an applicant has sufficient assets for closing purposes, or meets the residual income guideline, is not a compensating factor.

Valid compensating factors should **logically** be able to compensate (to some extent) for the identified **weakness** in the loan.

- For example, significant liquid assets may compensate for a residual income shortfall whereas long-term employment would not.

Compensating factors include, but are not limited to the following:

- Excellent credit history
 - Conservative use of consumer credit
 - Minimal consumer debt
 - Long-term employment
 - Significant liquid assets
- (continued)

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5.20 How to Analyze the Information on VA Form 26-6393, Continued

Compensating Factors (continued)

- Sizable down payment
 - The existence of equity in refinancing loans
 - Little or no increase in shelter expense
 - Military benefits
 - Satisfactory homeownership experience
 - High residual income
 - Low debt-to-income ratio
 - Tax credits for child care
 - Tax benefits of home ownership
-

Compare What Shelter Expenses will be to What Applicant Pays Now

Closely scrutinize a case in which the applicant will be paying **significantly** higher shelter expenses than he or she currently pays. Consider:

- The ability of the applicant and spouse to accumulate liquid assets; i.e., cash and bonds
- AND**
- The amount of debts incurred while paying a lesser amount for shelter.

If an application shows little or no capital reserves and excessive obligations, it may not be reasonable to conclude that a substantial increase in shelter expenses can be absorbed.

5.21 Examples of Underwriting Deficiencies

Purpose

Because of the high loan-to-value ratios of VA-guaranteed loans, it is **critical** that underwriters use sound judgment. The underwriting deficiencies listed in this section represent a sample of actual deficiencies found on VA loans that went into default. The deficiencies were of such significance that many of the loans should **not** have been made.

Continued on next page

5.21 Examples of Underwriting Deficiencies, Continued

**Inadequate
Development
of Credit
Information**

Deficiencies included:

- Failure to compare documented information with the applicant's initial application
 - Failure to question and investigate obvious discrepancies -
 - ◆ In the number of dependents or household size
 - ◆ Between actual year-to-date average monthly earnings and the income claimed on the loan application
 - Failure to question multiple Social Security numbers for an applicant
 - Failure to determine future plans of an active-duty serviceperson whose separation from service is imminent
 - Accepting an explanation for a bad credit history without documenting the circumstances alleged to have caused the credit problem, judgment, or bankruptcy
-

**Missing
Documentation**

Deficiencies included:

- Failure to inquire about and document the payment history on previous home loans, including prior VA loans
 - Failure to obtain documentation of employment history during the previous 2 years
-

**Verification
and Procedural
Errors**

Deficiencies included:

- Requiring the veteran to sign partially completed or blank forms
- Permitting income or asset deposit information to be handcarried by the applicant, real estate/sales agent, or a party other than the lender's specifically-designated employee
- Addressing verification forms to an individual chosen by the applicant rather than to the employer's personnel or payroll department
- Obtaining multiple/revised credit reports without validating the need for the subsequent reports

Continued on next page

5.21 Examples of Underwriting Deficiencies, Continued

Income Analysis Errors

Deficiencies included:

- Showing that an applicant is a salaried employee when, in fact, the applicant works solely on a commission basis, is a contract employee, or is actually self-employed
- Failure to use net profit or net income from Schedule C of IRS Form 1040 rather than the gross income of an applicant who is self-employed
- Using short-term, temporary, or sporadic income to qualify an applicant for a loan. Examples of unreliable income sources include -
 - ◆ Overtime pay in an industry or area that is experiencing an economic slowdown or decline
 - ◆ Income from a second job even though the applicant does not have a record of steadily working two jobs
 - ◆ Rental income even though the applicant does not have verified experience as a landlord
 - ◆ Poorly documented income from self-employment
- Qualifying a marginal applicant for a loan by using a buydown or graduated payment mortgage without establishing that the applicant's income will keep pace with the scheduled increase in mortgage payments
 - ◆ This is especially important in times of low inflation and stagnant or declining real estate markets.

Other Analysis Errors

Deficiencies included:

- Failure to consider changes in marital status or household size after application and prior to closing
- Failure to consider pay statements showing deductions to creditors that are not shown on the application, credit reports, or deposit verifications
- Approving a loan solely on the basis of an emotional appeal from the applicant or spouse, the sales agent, seller, or other interested party. A decision or an inclination to reject a loan application should **not** be changed unless there is new and compelling information available to justify approving the loan.
(continued)

Continued on next page

5.21 Examples of Underwriting Deficiencies, Continued

**Other Analysis
Errors**

Deficiencies (continued)

- Approving high debt-to-income ratio loans with few or no valid compensating factors
 - Using gift letters to offset past due obligations, pay off debts, etc., without consideration of the credit risk implications of the past due obligations
 - Ignoring debts, judgments, bankruptcies, alimony or child support obligations because they don't appear on the credit report
 - Failure to reconcile a large increase in shelter expense with an undemonstrated ability to accumulate cash assets
-

CHAPTER 6. LOAN CLOSING

SECTION I. FEES AND CHARGES

6.01 ALLOWABLE FEES AND CHARGES

a. The schedule of allowable fees and charges which appears below is published in 38 CFR 36.4312 and applies to all VA home loans. Lenders may not charge a veteran-borrower any fee not included in the schedule. Closing costs and prepaid items may not be included in the loan, except for refinancing loans. The schedule applies only to charges paid by the veteran.

b. Allowance is made in the basic schedule for the addition of items approved by VA Central Office as local variances.

c. Charges and fees permitted by the schedule are maximums and do not preclude alternative charges less than the maximums; e.g., a lender who elects not to make the 1-percent flat charge permissible under paragraph 6.02b may charge less or may make charges not specifically allowed in the schedule if the aggregate amount charged is not in excess of the authorized 1-percent flat allowance.

d. The 1-percent flat allowance is permissible in home loans. Paragraph 6.02d authorizes a further 1-percent charge in connection with loans for the alteration, improvement, or repair of residential real estate when it is not permissible to charge the 2-percent fee authorized by paragraph 6.02c for advances and supervising the progress of construction.

6.02 SCHEDULE OF ALLOWABLE FEES FOR LOANS UNDER 38 U.S.C. 3710

a. The veteran may pay reasonable and customary amounts for any of the following items:

(1) Fee of VA appraiser and of compliance inspectors designated by VA except appraisal fees incurred for the predetermination of reasonable value requested by other than the veteran or lender, and except the cost of appraisals requested by the lender or the seller to support requests for reconsideration of value. The veteran may pay for a second appraisal if he or she is requesting reconsideration of value.

(2) Recording fees and recording taxes or other charges incident to recordation.

(3) Credit report [(For cases processed through Loan Prospector, a \$50 fee may be charged in lieu of a Residential Mortgage Credit Report. When a merged credit report is required for a loan receiving a Refer classification, the cost of the merged credit report may also be charged to the veteran.)].

(4) That portion of taxes, assessments and similar items for the current year chargeable to the borrower and the initial deposit (lump-sum payment) for the tax and insurance account.

(5) Hazard insurance required by 38 CFR 36.4326.

(6) Survey, if required by lender or veteran, except that any charge for a survey in connection with a loan under 38 CFR 36.4356 through 36.4360 (condominium loans) must have prior approval of VA Central Office (264).

(7) Title examination and title insurance, if any. If lenders decide that an environmental protection lien endorsement to a title policy is needed, the cost of the endorsement may be charged to veterans under 38 CFR 36.4312(d)(1)(vii).

(8) In refinancing loans under section 3710(a)(5) or (8) of title 38, U. S. Code, Federal Express, Express Mail, or a similar service when the saved per diem interest cost to the veteran will exceed the cost of the special handling.

(9) Such other items as may be authorized in advance by VA Central Office as appropriate for inclusion under this paragraph as proper local variances.

(10) VA Funding Fee, if required by section 3729, title 38, U.S. Code.

b. A lender may charge and the veteran may pay a flat charge not exceeding 1 percent of the amount of the loan, provided that the flat charge is in lieu of all other charges relating to costs of origination not expressly specified and allowed in this schedule. Costs covered by the 1-percent flat charge include the following:

- (1) Lender's appraisals.
- (2) Lender's inspections, except in construction loan cases.
- (3) Loan closing or settlement fees.
- (4) Preparing loan papers or conveyancing fees.
- (5) Attorney's services other than for title work.
- (6) Photographs.
- (7) Postage and other mailing charges, stationery, telephone calls, and other overhead.
- (8) Amortization schedules, pass books, and membership or entrance fees.
- (9) Escrow fees or charges.
- (10) Notary fees.

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